

Message Text

UNCLASSIFIED

PAGE 01 MANILA 07275 01 OF 02 281134Z

51

ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 NEA-10 IO-10 L-03 H-02 PRS-01

PA-02 USIA-15 SP-02 AID-05 EB-07 NSC-05 CIEP-02 SS-15

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 3868

UNCLAS SECTION 1 OF 2 MANILA 7275/1

USADB

PASS TREASURY FOR GONZALEZ, OASIA

E.O. 11652: N/A

TAGS: EAID, EFIN

SUBJ: PASSMAN HEARINGS - PART I OF III

1. THE FOLLOWING ARE RESPONSES TO QUESTIONS SUBMITTED
BY SILVIO O. CONTE. (NOTE IN PARTICULAR NINTH ANSWER
BELOW, PARA. 15.) PART I.

2. QUESTION 1. CAN YOU TELL ME WHAT IMPACT THE
TREMENDOUS INCREASE IN OIL PRICES HAS HAD ON THE LENDING
POLICIES OF THE ADB?

ANSWER: IN RESPONSE TO INCREASE IN OIL PRICES, ADB
HAS RE-EXAMINED ALL ITS PROJECTS IN POWER AND ENERGY FIELD
GIVING SPECIAL EMPHASIS TO THOSE PROJECTS WHICH COULD
DRAW UPON INDIGENOUS FUEL SUPPLIES, E.G. HYDRO-POWER
AND COAL. CORRESPONDINGLY THE BANK OF FOCUSING
INCREASINGLY ON HYDRO-ELECTRIC PROJECTS AND PROJECTS
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PAGE 02 MANILA 07275 01 OF 02 281134Z

UTILIZING DOMESTIC COAL RESOURCES SUCH AS THE MAE MOH

PROJECT IN THAILAND. IN ADDITION, THE BANK HAS FINANCED AN ENERGY SURVEY FOR BANGLADESH TO DETERMINE MAXIMUM USE TO WHICH ITS INDIGENOUS FUEL RESOURCES MAY BE UTILIZED IN POWER SECTOR.

3. IN THE SAME GENERAL AREA, THE BANK IS GIVING INCREASING ATTENTION TO FERTILIZER PROJECTS USING THE NATURAL GAS RESOURCES OF SEVERAL OF ITS BORROWING MEMBER COUNTRIES. FOR EXAMPLE, BANK HAS RECENTLY FINANCED UREA FERTILIZER PROJECTS IN PAKISTAN AND BANGLADESH IN WHICH DOMESTIC NATURAL GAS RESOURCES WERE UTILIZED.

4. QUESTION 2. WHAT SUCCESS HAS THE ADB HAD IN ATTRACTING INVESTMENT BY THE OPEC NATIONS?

ANSWER: ADB HAS FINANCED TWO PROJECTS TO DATE IN WHICH OPEC NATIONS (EXCLUDING INDONESIA) HAVE PARTICIPATED BY PROVIDING JOINT FINANCING, I.E. THE MULTAN FERTILIZER PROJECT IN PAKISTAN AND ASHUGANJ FERTILIZER PROJECT IN BANGLADESH. IN ADDITION, ADB HAS IN PIPELINE A FERTILIZER PROJECT IN SRI LANKA IN WHICH IRAN AND KUWAIT WOULD PROVIDE PARALLEL FINANCING.

5. IN ADDITION TO DRAWING UPON DIRECT FINANCING FROM OPEC COUNTRIES WITH RESPECT TO PARTICULAR PROJECTS, ADB HAS EXPLORED WITH OPEC NATIONS PROSPECTS OF BORROWING FUNDS FOR RELENDING PURPOSES TO ITS MEMBER COUNTRIES. IN 1974 BANK BORROWED \$16.9 MILLION FROM KUWAIT AND IN 1975 IT BORROWED A FURTHER \$14.5 MILLION FROM SAUDI ARABIA. THE BANK HOPES TO INCREASE ITS BORROWINGS FROM THESE COUNTRIES CONSIDERABLY IN NEAR FUTURE BUT HAS BEEN PREVENTED FROM DOING SO BECAUSE OF RELATIVELY UNATTRACTIVE INTEREST RATES.

6. QUESTION 3. CAN YOU TELL ME WHAT THE AMERICAN PARTICIPATION RATE IS IN ADB-FINANCED PROJECTS?

ANSWER: AS OF DEC. 31, 1974 U.S. FIRMS HAD WON 12.1 PERCENT OF ALL CONTRACTS AWARDED FOR PROJECTS FINANCED FOR THE ADB. THAT RATE IS UP CONSIDERABLY FROM THE UNCLASSIFIED

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PAGE 03 MANILA 07275 01 OF 02 281134Z

8 PERCENT LEVEL WHICH PREVAILED APPROXIMATELY TWO YEARS AGO.

7. QUESTION 4. WHAT PERCENTAGE OF ADB CONSULTING CONTRACTS HAVE BEEN RECEIVED BY AMERICAN FIRMS?

ANSWER: AS OF DEC. 31, 1974 U.S. CONSULTING ENGINEERING FIRMS HAVE BEEN AWARDED 35 PERCENT OF ALL CONSULTING

ENGINEERING CONTRACTS ON ADB PROJECTS. IN PAST, U.S. SHARE HAS BEEN, ON SOME OCCASIONS, SOMEWHAT HIGHER THAN CUMULATIVE 35 PERCENT LEVEL. THERE IS, FURTHERMORE, GOOD REASON TO BELIEVE CUMULATIVE SHARE WILL BE INCREASED IN 1975 AS A RESULT OF CONTRACT NEGOTIATIONS CURRENTLY IN PROGRESS.

8. QUESTION 5. HOW DOES THIS COMPARE TO THE PORTION OF THE BANK'S FUNDS CONTRIBUTED BY THE U.S.?

ANSWER: THE U.S. PROCUREMENT SHARE IS IN EXCESS OF RELATIVE CONTRIBUTION OF U.S. TO BANK'S ORDINARY CAPITAL RESOURCES (TO DATE ALL U.S. CONTRIBUTIONS TO BANK'S SPECIAL FUNDS HAVE BEEN TIED EXCLUSIVELY TO PROVISION OF GOODS AND SERVICES FROM U.S. SUPPLIERS). WITH U.S. SUBSCRIPTION IN APRIL 1975 TO FIRST INSTALLMENT OF BANK'S CAPITAL INCREASE, U.S. SHARE IN BANK'S ORDINARY CAPITAL RESOURCES INCREASED TO ROUGHLY 10 PERCENT -- SOMEWHAT LESS THAN CUMULATIVE SHARE OF CONTRACT AWARDS OF SLIGHTLY MORE THAN 12 PERCENT.

9. QUESTION 6. DO YOU OFFER ANY PARTICULAR ASSISTANCE TO AMERICAN FIRMS INTERESTED IN BIDDING ON ADB PROJECTS?

ANSWER: OFFICE OF U.S. DIRECTOR EXTENDS EVERY POSSIBLE SERVICE TO U.S. FIRMS INTERESTED IN ADB PROJECTS. USADB CIRCULATES TO U.S. MISSION IN ASIA, TO THE COMMERCE DEPARTMENT IN WASHINGTON AS WELL AS TO ALL AMERICAN CHAMBERS OF COMMERCE IN ASIAN CAPITALS COPIES OF THE BANK'S "MONTHLY OPERATIONAL INFORMATION" WHICH LISTS ADB PROJECTS IN PIPELINE. IN ADDITION, U.S. DIRECTOR, OR A MEMBER OF HIS OFFICE, ATTENDS SEMI-ANNUAL MEETINGS OF ASIAN PACIFIC COUNCIL OF AMERICAN CHAMBERS OF COMMERCE, UNCLASSIFIED

UNCLASSIFIED

PAGE 04 MANILA 07275 01 OF 02 281134Z

THAT COUNCIL HAVING REPEATEDLY ENDORSED AND SUPPORTED ADMINISTRATION REQUEST FOR ADDITIONAL U.S. FUNDING OF THE ASIAN DEVELOPMENT BANK. FURTHER, U.S. DIRECTOR, WHEN TRAVELING EITHER IN ASIA OR IN UNITED STATES, CONTACTS AS A MATTER OF PRACTICE U.S. BUSINESS COMMUNITIES TO INCREASE THEIR INTEREST AND AWARENESS IN ADB PROJECTS AND CORRESPONDING BUSINESS OPPORTUNITIES TO U.S. BUSINESS COMMUNITY STEMMING FROM THOSE PROJECTS. FINALLY, USADB IN MANILA ENCOURAGES ANY INTERESTED U.S. EQUIPMENT SUPPLIER OR CONSULTING ENGINEER TO USE THE FACILITIES OF OFFICE IN CONTACTING RELEVANT ADB OFFICIALS ABOUT ANY AND ALL BANK PROJECT OR PRACTICES.

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PAGE 01 MANILA 07275 02 OF 02 281143Z

51

ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 NEA-10 IO-10 L-03 H-02 PA-02

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UNCLAS SECTION 2 OF 2 MANILA 7275/2

10. QUESTION 7. ISN'T IT TRUE THAT ADB IS CONSIDERED
FASTEST AND MOST EFFICIENT OF DEVELOPMENT BANKS IN ITS
PROCESSING AND AWARDING OF CONTRACTS? WHY IS THAT?

ANSWER: ADB IS INDEED MOST EFFICIENT OF DEVELOPING
BANKS IN PROCESSING AND AWARDING OF CONTRACTS. IT ENJOYS
THIS REPUTATION BECAUSE OF ITS PROXIMITY TO PROJECTS
WHICH IT FINANCES SINCE BANK'S HEADQUARTERS ARE LOCATED
IN MANILA AND BANK STAFF ARE IMMEDIATELY AVAILABLE TO
RESOLVE ANY PROBLEM OF CONTRACT AWARDS OR PROCEDURES.
IN ADDITION, BANK HAS FOLLOWED THE PRACTICE OF SENDING
A MEMBER OF OFFICE OF GENERAL COUNSEL ON MISSIONS FOR
EXPRESS PURPOSE OF INFORMING BORROWING COUNTRIES OF
VARIOUS REQUIREMENTS AND PROVISIONS FOR EXPEDITIOUS
AWARDING OF CONTRACTS IN LINE WITH ADB GUIDELINES AND
PROVISIONS.

11. QUESTION 8. ONE COMPLAINT ABOUT ADB HAS BEEN THAT
JAPAN HAS AN INORDINATE INFLUENCE ON BANK. IS THIS
INFLUENCE DECREASING AT ALL?

ANSWER: JAPAN'S INFLUENCE IN BANK HAS BEEN GREAT IN
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PAGE 02 MANILA 07275 02 OF 02 281143Z

PAST BUT BASICALLY BECAUSE OF INABILITY OF U.S. TO MAINTAIN ITS LEVEL OF CONTRIBUTIONS. AT INCEPTION OF BANK, JAPAN AND U.S. CONTRIBUTED EQUAL AMOUNTS BUT SINCE THAT PERIOD JAPAN HAS FULLY SUBSCRIBED TO BANK'S ORDINARY CAPITAL INCREASE AND HAS PROVIDED AS WELL AD HOC CONTRIBUTIONS TO BANK'S SPECIAL FUNDS FAR IN EXCESS OF THOSE FROM UNITED STATES. HOWEVER, IF U.S. DOES FULLY SUBSCRIBE TO ORDINARY CAPITAL INCREASE, IT WILL RE-ESTABLISH ITS VOTING PARITY WITH JAPAN IN BANK.

12. IN ADDITION, JAPAN HAS BENEFITED GREATLY IN PAST BY VIRTUE OF FACT THAT ITS SUPPLIERS OF GOODS AND SERVICES HAVE WON MAJORITY OF PROCUREMENT AWARDS. AT ONE TIME PARTICIPATION LEVEL WAS AS HIGH AS 60 PERCENT BUT IT HAS FALLEN IN RECENT MONTHS TO A CUMULATIVE TOTAL OF 43 PERCENT.

13. FINALLY, A PREVIOUS IMBALANCE IN PROFESSIONAL STAFF IN FAVOR OF JAPAN HAS 29 PROFESSIONAL STAFF MEMBERS WHICH IS ONLY FOUR MORE THAN THE TWENTY-FIVE U.S. NATIONALS CURRENTLY ON THE BANK'S STAFF. AND EVEN THOUGH PRESIDENT OF BANK HAS ALWAYS BEEN JAPANESE, U.S. NATIONALS HAVE FILLED POSITIONS OF GREAT IMPORTANCE IN BANK'S OPERATIONS, E.G. THAT OF GENERAL COUNSEL. FURTHERMORE, A U.S. NATIONAL HAS RECENTLY FILLED A NEWLY CREATED DIRECTOR OF PROJECTS POSITION WHICH, FOR FIRST TIME, PLACES A U.S. NATIONAL IN A KEY POSITION IN BANK'S DAILY LENDING OPERATIONS.

14. IN SUM, U.S. INFLUENCE IN BANK IS RAPIDLY INCREASING WHILE THAT OF JAPAN IS DECREASING TO EFFECT A MORE REALISTIC AND PRAGMATIC BALANCE.

15. QUESTION 9. CAN YOU PROVIDE A TABLE SHOWING THE PERCENTAGE CONTRIBUTION OF EACH BANK MEMBER ALONG WITH EACH MEMBER'S SHARE OF ADB PROJECTS?

ANSWER: INFORMATION AVAILABLE IN ADB DOCUMENT SEC-M-25-75, PROCUREMENT STATISTICS, POUCHED MARCH 25, AND ADB 1974 ANNUAL REPORT, APPENDIX I-VII, PAGE X 57.

UNCLASSIFIED

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PAGE 03 MANILA 07275 02 OF 02 281143Z

16. QUESTION 10. ISN'T IT NECESSARY TO INCREASE OUR CONTRIBUTION IN ORDER TO MAINTAIN OUR VOTING POWER IN BANK?

ANSWER: IT IS INDEED NECESSARY TO SUBSCRIBE TO THE TWO REMAINING INSTALLMENTS OF BANK'S ORDINARY CAPITAL INCREASE IN ORDER TO RE-ESTABLISH OUR VOTING PARITY WITH JAPAN IN BANK. CURRENTLY THE U.S. VOTING SHARE IS 9.8 PERCENT WHILE JAPAN'S IS 15.9 PERCENT. WHEN THE U.S. FULLY SUBSCRIBES TO ORDINARY CAPITAL INCREASE, ITS VOTING SHARE WILL ONCE AGAIN BE EQUIVALENT WITH JAPAN'S.

17. QUESTION 11. WHAT SORTS OF PROJECTS DO YOU FINANCE FOR SMALL FARMERS?

ANSWER: THE BANK PLACES INCREASING IMPORTANCE ON PROJECTS WHICH ARE OF CRITICAL SIGNIFICANCE TO SMALL FARMER. IN 1974 26.5 PERCENT OF ALL BANK PROJECTS IN DOLLAR VOLUME WERE IN FIELD OF SMALL-SCALE AGRICULTURE. EVEN THOUGH IN DOLLAR VOLUME THE BANK'S CUMULATIVE LENDING IN AGRICULTURE FIELD IS ONLY 16 PERCENT IN TERMS OF NUMBERS, MAJOR EMPHASIS OF BANK SINCE ITS INCEPTION HAS BEEN IN FIELD OF AGRICULTURE. FOR EXAMPLE, LARGEST PERCENTAGE OF BANK PROJECTS -- 26 PERCENT -- HAS BEEN IN AGRICULTURE. FURTHERMORE, THE LARGEST NUMBER OF TECHNICAL ASSISTANCE PROJECTS -- 40 PERCENT -- GENERALLY EXTENDED FOR PROJECT PREPARATION, IS IN FIELD OF AGRICULTURE. FINALLY, LARGEST NUMBER OF BANK PROFESSIONAL STAFF IS ASSIGNED TO ITS AGRICULTURE AND IRRIGATION DIVISIONS. IN SUM, THE BANK PLACES ITS MAJOR EMPHASIS ON AGRICULTURE AND AGRICULTURAL PROJECTS WHICH HAVE A DIRECT AND IMMEDIATE BEARING ON SMALL FARMER. THAT EMPHASIS IS INCREASING, AND IN 1975 BOTH THE VOLUME AND NUMBER OF BANK PROJECTS IN AGRICULTURE ARE SCHEDULED TO EXPAND FURTHER.

18. QUESTION 12. FOLLOWING RECENT EVENTS IN INDOCHINA, WOULDN'T YOU SAY IT IS IMPORTANT TO DEMONSTRATE OUR CONTINUING INTEREST IN THE SECURITY AND PROSPERITY OF ASIA THROUGH SUCH INSTITUTIONS AS THE ADB?

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PAGE 04 MANILA 07275 02 OF 02 281143Z

ANSWER: IT IS OF CRITICAL IMPORTANCE FOLLOWING RECENT EVENTS IN INDOCHINA FOR U.S. TO DEMONSTRATE ITS CONTINUING INTEREST IN SECURITY AND PROSPERITY OF ASIA. ONE OF CLEAREST MEANS OF DOING SO IS UNEQUIVOCAL AND STRONG SUPPORT FOR ASIAN DEVELOPMENT BANK. IN FACT, U.S. CONTRIBUTIONS TO BANK HAVE A SYMBOLIC IMPACT VASTLY IN EXCESS OF THE ACTUAL DOLLAR AMOUNT OF THOSE CONTRIBUTIONS. HENCE IT IS CRUCIAL THAT U.S. SUBSCRIBE TO SECOND INSTALLMENT OF ORDINARY CAPITAL INCREASE, PARTICULARLY IN VIEW OF FACT THAT KOREA IS BANK'S LARGEST BORROWER OF ORDINARY CAPITAL RESOURCES. IN ADDITION,

IT IS EQUALLY AS IMPORTANT THAT U.S. PROVIDE THIRD \$50
MILLION OF FUNDS FOR CONCESSIONARY LENDING WINDOW.
FINALLY, U.S. MUST STRONGLY SUPPORT CURRENT REPLENISH-
MENT EFFORTS FOR ITS CONCESSIONAL LENDING OPERATIONS SINCE,
TO DO OTHERWISE, WOULD UNDOUBTEDLY GENERATE WIDESPREAD
MISINTERPRETATIONS REGARDING U.S. RESOLVE TO MAINTAIN
ITS INTEREST AND PARTICIPATION IN ASIAN AFFAIRS.
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